

# ALLOCATION OF FINANCIAL RESOURCES TO BUSINESS SECTOR IN UZBEKISTAN

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## ABSTRACT

Today significant amount of country's budget is being allocated to develop business climate in Uzbekistan and government is launching large-scale financial support for entrepreneurs, planning projects to provide people who are willing to start their own business acquiring bank loans. Moreover, a lot of privileges are given to female entrepreneurs for their start-up business. The article reviews the allocation of financial resources to small and medium sized enterprises, the role of a banking system in the allocation of money and projects related to development of business sector. Statistics related to the topic is illustrated with graphs and pictures. In the article some ways to develop the business sector are suggested.

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There is saying: “The more organized financial resources, the more developed the Economy”. In Uzbekistan, the government is drawing more attention to Business Sector as the sector is found to be much prospective and profitable. Before looking at money distributed into this field, it is urgent to know what budgetary allocations mean.

*Budgetary allocations* are integral components to an annual financial plan, or budget of all organizations. It is the amount of funding designated to each expenditure line. It designates the maximum amount of funding an authority or an organization is willing to spend on a given item, program or field.

The Ministry of Finance decides how to allocate money properly according to statistics from the previous years and investigations of forecast upcoming results. Recognizing the importance and bright future of business, most of the money in country's budget is spent on Business sector as well as attracting more investments from abroad.

According to the fact that small businesses effectively generate employment and income, the role of small business and entrepreneurship in the country's GDP (Gross Domestic Product) is ever increasing and giving loads of opportunities to start-up businesses: subsidies, decreased tax rates and so on. For example, as of 1 January 2016 basic tax rate for unified tax payment for micro-firms and small businesses, except for enterprises of trade and public catering, was reduced from 6 % to 5 % in order to further lessen tax burden, support and stimulate development of small and private businesses. [1]

Uzbekistan is ranked 74 among 190 economies in the ease of doing business according to the latest World Bank annual ratings. The rank of Uzbekistan improved to 74 in 2017 from 87 in 2016 (Figure 1).

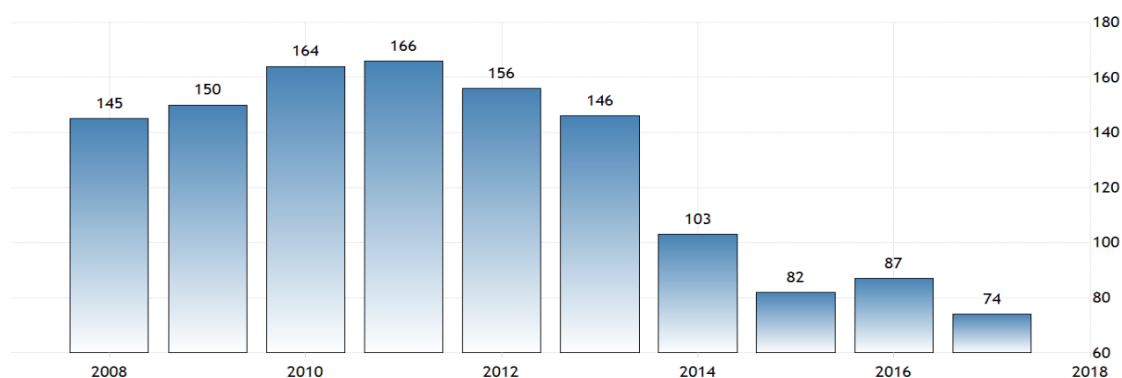


Fig. 1. Ease of doing business in Uzbekistan. [2]

The financial system is dominated by banks, which control 94 % of finance sector assets. In this turn, money allocated to business sector is managed by banks. They give short-term and long-term credits to people intending to set up their own business. Eight state-owned banks control 75 % of banking assets and provide the bulk of credit to state-owned entities. During 2011-2015, bank credit to small businesses substantially increased from 4.5 % to 7.1 % of GDP, reflecting a compound annual growth rate (CAGR) of 34.1 %.

Looking at the examples below, given opportunities to entrepreneurs can be clearly understood:



Fig. 2. Increased loans issued to small business in 2015 and 2016(in trillion sums) [3]

– To increase the role of business in the country and to give more independence the amount of issued loans to small business owners increased by 1,3 times compared to the year 2015 (15,9 trillion sums according to the statistics of January 1<sup>st</sup>, 2017), including 3,3 billion sums in microcredits, also 1.3 times more than that in 2015 (Figure 2)

– The amount of given credits in Commercial banks to female entrepreneurs expanded by 1,3 times and reached 1,6 trillion sums compared to 2014.

– Supporting the young people, graduated colleges and want to do business, the amount of loan given to them in 2016 is 1,3 times more than the one in 2015 (362.1 billion sums). (Figure 3)



Fig. 3. Increased loan given to the young entrepreneurs in 2015 and 2016 (in billion sums) [4]

Some new projects related to the money supplies in banks are willing to be carried by upcoming years. For example, The Asian Development Bank (ADB) has approved a loan of \$ 100 million for financing small business in Uzbekistan.

Credits to small businesses will be provided through four financial institutions: PJSCB DAVR BANK, JSCB Hamkorbank, AICB Ipak Yuli and leasing company Uzbek Leasing International A. O. (the assets of the project are in the table below).

The current allocation of the ADB loan to PFIs is presented in Table 1. The Loan Agreement provides that the Government of Uzbekistan shall reallocate the funds among the PFIs in a manner acceptable to ADB should there be a change in the composition of the PFIs or a need to reallocate the proceeds of the ADB loan.

In the implementation of the project responsible bodies are MOF (Ministry of Finance) and ADB (Asian Development Bank) with the other four key subjects: Hamkorbank, Ipak Yuli Bank, Uzbek Leasing, Davr bank (Figure 4)

Alia Mukhamedyarova, a specialist in the financial sector of the ADB's Central and Western Asia Department, noted that the share of small businesses in Uzbekistan's GDP is higher than 50 %. About 80 % of employees work in this sector.

"But access to financial resources, particularly in rural areas, is hampered by inadequate services and a number of other circumstances," she said.

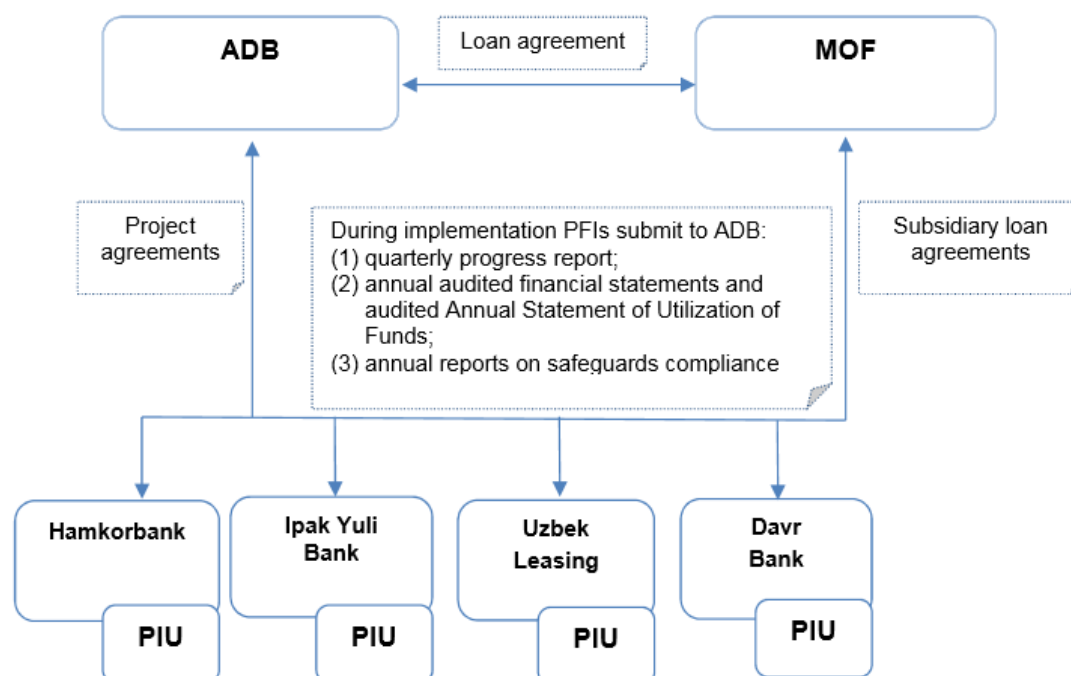
According to her, in the framework of this loan, small businesses can get loans for working capital and investments in fixed assets. She noted that, in particular, the funds will be provided to businesses outside the capital and to female entrepreneurs.

Table 1. Annual Disbursement Estimates (\$ million) [5]

Participating Financial Institution	Allocation	Disbursement Year			
		2016	2017	2018	2019
Hamkorbank	45.00	4.00	14.00	14.00	13.00
Ipak Yuli Bank	38.00	3.00	13.00	12.00	10.00
Uzbek Leasing	10.00	0.75	3.25	3.00	3.00
Davr Bank	7.00	0.25	2.75	2.00	2.00
Total Project Cost	100.00	8.00	33.00	31.00	28.00
Total Project Cost %	100 %	8.0 %	33.0 %	31.0 %	28.0 %

Providing a loan will help meet the growing demand for credit and leasing of small businesses and entrepreneurs.

ADB notes that the maximum amount of the sub-loan will be \$300,000. The borrowed funds will be allocated to small businesses at market financing rates. At the same time, at least 20 % of sub-loans will be provided to small businesses owned by women. The project will contribute to improving the enabling environment for women-owned small businesses by upgrading their skills and access to finance. To ensure a wide outreach of training to the targeted population, PFIs will conduct annual customer surveys of women owned small businesses to identify issues faced by this segment carry out public marketing campaigns to improve outreach to women and rural small businesses. [6]



ADB = Asian Development Bank; MOF = Ministry of Finance; PFI = participating financial institutions;  
PIU = project implementation unit.

Fig. 4. Project Organization Structure [7]

Also, the project envisages allocating at least 60 % to small businesses outside Tashkent.

ADB also provided Uzbekistan with a technical assistance grant of \$500,000. The Government of Luxembourg will finance this grant through the Special Partnership Fund for the Development of the Financial Sector, which will be administered by ADB.

Technical assistance will help in strengthening the policies and procedures of participating financial institutions, increasing the potential for financing small businesses.

Also, within the framework of technical assistance, intensive training programs for financial literacy will be conducted for small businesses – clients of participating financial institutions.

The project implementation period is 5 years, with a projected completion date in December 2021.

Opportunities provided are for the best performance if people in the country try them. To improve the business skills of the people and support them to take every opportunities to run their own business the government can carry out a set of the following activities:

- Inform continuously every Decree, laws released about business sector by the authority through mass media. (Television, radio, internet and etc.)

- Organize special “advice rooms” in each banks and specialists to give advice and information to the person coming to the bank about start-up projects, types of loans, subsidies and other questions they are interested in.

- Organize special trainings to teach how to make business plan and the types of business which can be well-organised in our business climate.

- Optimize the every service in banks to make customers come and use the services next time (because every time of their arrival gives them inspiration to take credit and start small business).

The role of small business and private entrepreneurship in the country’s GDP and economy is increasing. Recognising the importance of the business community in general and private entrepreneurship in particular for the economy, the state constantly updates the legislation in attempts to decrease the tax and administrative burden on the business. Uzbek government constantly develops various tools aimed at improving the local business climate: various subsidies, short and long term credits, investments from abroad in both local and global scale.

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